

Chapter 60

Theory and Practice of Target Financial Forecasting at Company Level

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ABSTRACT

The article considers conceptual, methodical, and practical aspects of the target financial forecasting at the micro level (i.e., the company level) as a new instrument of anticrisis financial management for a company to overcome its financial difficulties and enhance its financial position within a time period of practically any length. The methodology of the research and the results being presented in the article are based on the concept of the financial ratio analysis, the concept of the company cash flows, and the concept of the balanced scorecard (in terms of its financial score). It is depicted that the procedure of the target financial forecasting comprises an appropriate information-accounting support, a target financial forecasting of the company financial position, a target forecasting of the company's cash flows, and a development of the specific events (managements' decisions) aimed at overcoming the company's financial difficulties and enhancing its financial position.

1. INTRODUCTION

The idea of the target financial forecasting as an instrument to improve company financial health has been created by the author of the present article. The results of the first empirical study of the problem bearing predominantly theoretical nature were presented in a rather brief paper and published six years ago (Krylov, 2015). Since, then the idea of the target financial forecasting has been developed in the further authors' publications (*e. g.*, Krylov, 2015) relevant to the strategic financial management of the company performance basing on the financial score of the Balanced Scorecard.

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The present article is some kind of the outcome of the author's research of the target financial forecasting at the level of a company. The article considers both its theoretical-methodical basis and applied and practical aspects highlighting the target financial forecasting applicability as the instrument of the anticrisis financial management.

In this connection, the research of theoretical, methodical and practical aspects of the target company financial performance forecasting with the financial ratio values comprising synthesized information of the company financial position is of special importance.

Meanwhile, the present-day financial management theory and practice have developed a number of company financial performance forecast techniques; some of them basing on the financial ratios. Referred to them are budgeting, percentage of revenues technique, and economic-mathematical technique described in quite a few relevant articles (Bernstein,1993; Bernstein, Wild & Subramanyam, 2001; Block, Hirt & Danielsen, 2011; Brealey, Mayers & Allien, 2017; Brigham, 1983; Brigham & Houston, 2015; Brooks, 2014; Helfert, 1994, 2001; Higgins, Koski & Mitton, 2016; McLaney, 1992; Lee & Finnerty,1990; Makridakis & *et al.*, 1998; Penman, 2004; Pocock, & Taylor, 1988; Subramanyam, 2014; Van Horne,1989; Van Horne & Wachowicz, 2009; Watsham & Parramore, 2004, *et al.*). The budgeting, percentage of revenues technique are utilized as short-term financial forecasting instruments, the economic-mathematical technique is treated as the instrument for the middle-term and long-term financial forecasting.

However, the techniques described are labor-consuming, dependent on the sales forecast and insufficiently accurate. In addition, the applications of the financial forecast technique proposed are primarily designed to be applied within the healthy company performance conditions experiencing neither financial difficulties nor the need to develop any anticrisis events.

Generally speaking, the author considers critical to develop a new method that enables to exercise the target financial forecasting within anticrisis company financial management with the key financial ratios bearing no drawbacks mentioned, *i.e.* sufficiently accurate, non-tedious and applicable for any type of entity. In addition, to improve both the target financial forecasting efficiency and to form its information-analytical support the procedures are worth incorporating.

2. METHODOLOGY OF RESEARCH

The methodology of the research, the results being presented in the paper, is based on the three concepts as follows:

1. A concept of the financial ratio analysis.
2. A concept of the company cash (fund) flows.
3. A concept of the Balanced Scorecard (in terms of its financial scores).

Consider briefly each of them.

A concept of the financial ratios analysis. At present the financial ratios analysis is considered as one of the basic instruments of the financial position and financial analysis.

Each financial ratio is a relative indicator featuring an aspect of the financial position and estimated as a ratio of one accounting indicator to another one or a relationship of two qualitative financial characteristics.

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